

# Commercial Property Outlook

## Private & Public Markets



Green Street Advisors

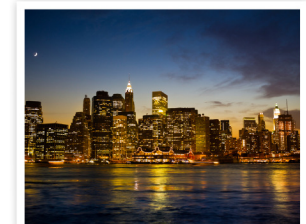
March 28, 2011

DJIA: 12,198 | RMZ: 783 | 10-Year T-Note: 3.44%

## What a Difference Two Years Makes

### Overview

- Drivers of property demand are all moving in the right direction
- Market fundamentals have turned positive in every property sector
- The silver lining of the Great Recession is very low supply growth
- NOI outlook: good for apartments and lodging; lackluster elsewhere
- Property values have enjoyed a robust recovery...upside remains
- Private-market pricing: strip retail is cheap; office is expensive
- REIT values are at the high end of a fair range
- Retail REITs offer the best value propositions; office REITs are pricey



# Table of Contents

## Sections

---

I. Executive Summary	3
II. Economic Drivers of Real Estate Demand	4-10
III. Supply	11-13
IV. Fundamentals	14-19
V. Private Market Valuation	20-29
VI. Public Market Valuation	30-36

---

## Authors

---

Mike Kirby, *Director of Research*

Peter Rothmund, *Analyst*

---

The analysis contained herein is based on market pricing as of March 23, 2011 -  
RMZ = 774; DJIA = 12086; Baa = 5.98%.

# Executive Summary

---

## Demand Drivers

### *New Normal means slow*

- Stimulus-fueled '11 economic outlook is pretty good. Sustainable?
- Consumer spending – Savings rates are projected to fall. Really?
- Jobless recovery begone! Growth of 200K/month is likely and will be helpful.
- Demand growth now positive everywhere; impressive only in apartments & hotels
- Rich get richer. The winners: high-end retail & gateway cities.
- Homeownership rate should fall further – multi-family landlords rejoice!

## Supply

### *A very shiny silver lining*

- '11-12 supply growth is lowest in over a generation
- Apartment development pipelines are growing quickly
- Not problematic anywhere 'til at least 2013

## Property Fundamentals

### *Bouncing off the bottom*

- Fundamentals are recovering in all sectors
- Low expectations are in order; multi-family & hotels will be stronger
- Out-year cash flow prospects have improved markedly across all sectors

## Property Valuation

### *Robust rebound*

- Property values are up 40% from the trough; down “only” 15% from the peak
- Further appreciation of, say, 5% seems likely
- Strip centers offer the most attractive private-market valuations; office is expensive

## Public Market Valuation

### *Getting hard to breathe*

- REIT prices make sense vs. bonds, but are very rich vs. stocks
- Bond signal deserves more weight; REIT prices are near the high end of a fair range
- Biggest risk: robust recovery and higher interest rates. Hope for New Normal
- Retail REITs – both mall and strip – look attractive; office REITs don't

---

# Green Street Advisors' Disclosure Statement

---

**Analyst Certification** – The research analysts listed below hereby certify that all of the views expressed in this research report accurately reflect their personal views about any and all of the subject companies or securities. They also certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analysts: Mike Kirby, Peter Rothemund.

---

**Issuers of this Report: U.S. and EEA:** This report has been prepared by analysts working for Green Street Advisors (GSA (U.S.)) and/or Green Street Advisors (U.K.) Limited (GSA (UK)), both of which are subsidiaries of Green Street Holdings, Inc.

**This report is issued in the U.S.A by GSA (U.S.). GSA (UK) accepts no responsibility for this report to the extent that it is relied upon by persons based in the U.S.A.** GSA (U.S.) is regulated by FINRA and the United States Securities and Exchange Commission, and its headquarters is located at 660 Newport Center Drive, Suite 800, Newport Beach, CA 92660.

**This report is issued in the European Economic Area (EEA) by GSA (UK). GSA (U.S.) accepts no responsibility for this report to the extent that it is relied upon by persons based in the EEA.** GSA (UK) is registered in England, (Company number. 6471304), and its registered office is 22 Grosvenor Square, 3rd Floor, London, W1K 6LF. GSA (UK) is authorized and regulated by the Financial Services Authority in the United Kingdom and is entered on the FSA's register (no. 482269)].

**References to "Green Street" in Disclosures in this section and in the Other Important Information section apply to:**

- GSA (U.S.) to the extent that this report has been disseminated in the U.S.A; or
- GSA (UK) to the extent that this report has been disseminated in the EEA.

Green Street Advisors U.S. is exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services; and is regulated by the SEC under U.S. laws, which differ from Australian laws.

Green Street Advisors UK Ltd. is exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services; and is regulated by the FSA under UK laws, which differ from Australian laws.

Green Street reserves the right to update the disclosures and policies set out in this document at any time. We encourage a careful comparison of these disclosures and policies with those of other research providers, and welcome the opportunity to discuss them.

**Affiliate Disclosures:** Green Street does not directly engage in investment banking, underwriting or advisory work with any of the companies in our coverage universe. However, the following are potential conflicts regarding our affiliates that should be considered:

- Green Street is affiliated with, and at times assists, Eastdil Secured, a real estate brokerage and investment bank, when Eastdil Secured provides investment banking services to companies in Green Street's coverage universe. Green Street is never part of the underwriting syndicate, selling group or marketing effort but Green Street may receive compensation from Eastdil Secured for consulting services that Green Street provides to Eastdil Secured related to Eastdil Secured's investment banking services. Green Street does not control, have ownership in, or make any business or investment decisions for, Eastdil Secured.
- Green Street has an advisory practice servicing investors seeking to acquire interests in publicly-traded companies. Green Street may provide such valuation services to prospective acquirers of companies which are the subject(s) of Green Street's research reports. Green Street may receive fees that are contingent upon the successful completion of a transaction or other fees for its work on behalf of prospective acquirers.
- An affiliate of Green Street is the investment manager of an equity securities portfolio on behalf of a single client. The portfolio contains securities of issuers covered by Green Street's research department. The affiliate is located in a separate office, employs an investment strategy based on Green Street's published research, and does not trade with Green Street's trading desk.

---

## Other Important Information

**Management of Conflicts of Interest:** Conflicts of interest can seriously impinge the ability of analysts to do their job, and investors should demand unbiased research. In that spirit, Green Street adheres to the following policies regarding conflicts of interest:

- Green Street employees are prohibited from owning the shares of any company in our coverage universe.
- Green Street employees do not serve as officers or directors of any of our subject companies.
- Green Street does not commit capital or make markets in any securities.
- Neither Green Street nor its employees/analysts receives any compensation from subject companies for inclusion in our research.
- Green Street does not directly engage in investment banking or underwriting work with any subject companies.

Please also have regard to the Affiliate Disclosures listed above when considering the extent to which you place reliance on this research presentation and any research recommendations made herein.

A number of companies covered by Green Street research reports pay an annual fee to receive Green Street's research reports. Green Street may periodically solicit this business from the subject companies. In the aggregate, annual fees for GSA (U.S.) and GSA (UK) research reports received from subject companies represent less than 3% of each of GSA (U.S.)'s and GSA (UK)'s respective total revenues.

Green Street publishes research reports covering issuers that may offer and sell securities in an initial or secondary offering. Broker-dealers involved with selling the issuer's securities or their affiliates may pay compensation to GSA upon their own initiative, or at the request of Green Street's clients in the form of "soft dollars," for receiving research reports published by Green Street.

The information contained in this presentation is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This presentation is produced solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This presentation is not an offer or the solicitation of an offer to sell or buy any security.

Green Street Advisors is an accredited member of the Investors Research Association, whose mission is to increase investor and pensioner trust in the U.S. capital markets system through the promotion and use of investment research that is financially aligned with investor interests.

Green Street generally prohibits research analysts from sending draft research reports to subject companies. However, it should be presumed that the analyst(s) who authored this presentation has/(have) had discussions with the subject company to ensure factual accuracy prior to publication, and has/(have) had assistance from the company in conducting due diligence, including visits to company sites and meetings with company management and other representatives.

# Green Street Advisors' Disclosure Statement

## Terms of Use

**Protection of Proprietary Rights:** To the extent that this presentation is issued by GSA (U.S.), this material is the proprietary and confidential information of Green Street Advisors, Inc., and is protected by copyright. To the extent that this presentation is issued by GSA (UK), this material is the proprietary and confidential information of Green Street Advisors (U.K.) Limited, and is protected by copyright.

This presentation may be used solely for reference for internal business purposes. This presentation may not be reproduced, re-distributed, sold, lent, licensed or otherwise transferred without the prior consent of Green Street. All other rights with respect to this presentation are reserved by Green Street.

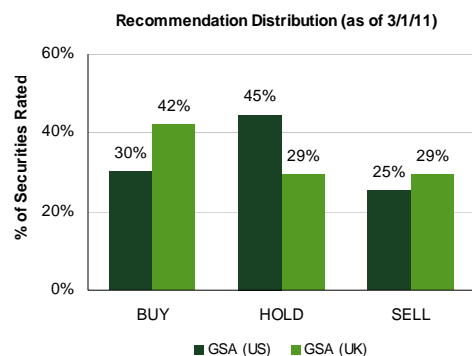
**EEA Recipients: For use only by Professional Clients and Eligible Counterparties:** GSA (UK) is authorized by the Financial Services Authority of the United Kingdom to issue this presentation to "Professional Clients" and "Eligible Counterparties" only and is not authorized to issue this presentation to "Retail Clients", as defined by the rules of the Financial Services Authority. This presentation is provided in the United Kingdom for the use of the addressees only and is intended for use only by a person or entity that qualifies as a "Professional Client" or an "Eligible Counterparty". **Consequently, this presentation is intended for use only by persons having professional experience in matters relating to investments. This presentation is not intended for use by any other person. In particular, this presentation intended only for use by persons who have received written notice from GSA (UK) that he/she/it has been classified, for the purpose of receiving services from GSA (UK), as either a "Professional Client" or an "Eligible Counterparty". Any other person who receives this presentation should not act on the contents of this presentation.**

## Review of Recommendations:

- Unless otherwise indicated, Green Street reviews all investment recommendations on at least a monthly basis.
- The research recommendation contained in this report was first released for distribution on the date identified on the cover of this report.
- Green Street will furnish upon request available investment information supporting the recommendation(s) contained in this report.

At any given time, Green Street publishes roughly the same number of "BUY" recommendations that it does "SELL" recommendations.

Green Street's "BUYs" have historically achieved far higher total returns than its "HOLDs", which, in turn, have outperformed its "SELLs".



**Total Return of Green Street's Recommendations<sup>1,2</sup>**

Year	Buy	Hold	Sell	Universe <sup>3</sup>
2011 YTD	2.6%	1.9%	-0.4%	1.5%
2010	43.3%	32.7%	26.5%	33.8%
2009	59.0%	47.7%	6.0%	37.9%
2008	-28.1%	-30.9%	-52.6%	-37.3%
2007	-6.9%	-22.4%	-27.8%	-19.7%
2006	45.8%	29.6%	19.5%	31.6%
2005	26.3%	18.5%	-1.8%	15.9%
2004	42.8%	28.7%	16.4%	29.4%
2003	43.3%	37.4%	21.8%	34.8%
2002	17.3%	2.8%	2.6%	5.4%
2001	34.9%	19.1%	13.0%	21.1%
2000	53.4%	28.9%	5.9%	29.6%
1999	12.3%	-9.0%	-20.5%	-6.9%
1998	-1.6%	-15.1%	-15.5%	-12.1%
1997	36.7%	14.8%	7.2%	18.3%
1996	47.6%	30.7%	18.9%	32.1%
1995	22.9%	13.9%	0.5%	13.5%
1994	20.8%	-0.8%	-8.7%	3.1%
1993	27.3%	4.7%	8.1%	12.1%
<b>Total Return</b>	<b>5935.3%</b>	<b>529.8%</b>	<b>-20.7%</b>	<b>596.4%</b>
<b>Annualized</b>	<b>25.6%</b>	<b>10.8%</b>	<b>-1.3%</b>	<b>11.4%</b>

The results shown in the table above (to the right) are hypothetical; they do not represent the actual trading of securities. Actual performance will vary from this hypothetical performance due to, but not limited to 1) advisory fees and other expenses that one would pay; 2) transaction costs; 3) the inability to execute trades at the last published price (the hypothetical returns assume execution at the last closing price); 4) the inability to maintain an equally-weighted portfolio in size (the hypothetical returns assume an equal weighting); and 5) market and economic factors will almost certainly cause one to invest differently than projected by the model that simulated the above returns. All returns include the reinvestment of dividends. Past performance, particularly hypothetical performance, can not be used to predict future performance.

(1) Results are for recommendations made by Green Street's North American Research Team only (includes securities in the US, Canada, and Australia). Uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 28, 1993 through March 1, 2011. Historical results from January 28, 1993 through September 1, 2010 were independently verified by an international "Big 4" accounting firm. The accounting firm did not verify the stated results subsequent to September 1, 2010. As of September 1, 2010, the annualized total return of Green Street recommendations since January 28, 1993 was: Buy +25.1%, Hold +10.2%, Sell -1.9%, Universe +10.8%.

(2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly". Beginning April 28, 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning March 3, 2003, all Hotel companies are excluded.

(3) All securities covered by Green Street with a published rating that were included in the calculation of total return. Excludes "not rated" securities.

Per NASD rule 2711, "Buy" = Most attractively valued stocks. We recommend overweight position; "Hold" = Fairly valued stocks. We recommend market-weighting; "Sell" = Least attractively valued stocks. We recommend underweight position.

Green Street will furnish upon request available investment information regarding the recommendation

# Green Street Advisors' North American Team

**Research** 660 Newport Center Drive, Suite 800 Newport Beach, CA 92660 +1.949.640.8780

<b>Macro</b>	Mike Kirby, Director of Research Craig Leupold, President	mkirby@greenst.com cleupold@greenst.com
<b>Company Specific</b>	Jim Sullivan, Managing Director, REIT Research	jsullivan@greenst.com
• <b>Health Care</b>	Jeff Theiler, Analyst	jtheiler@greenst.com
• <b>Industrial</b>	Steven Frankel, CFA, Analyst John Hornbeak, Associate Eric Frankel, Associate*	sfrankel@greenst.com jhornbeak@greenst.com efrankel@greenst.com
• <b>Lodging</b>	Enrique Torres, Analyst Nicholas Nickerson, Associate Brian Nudd, Associate*	etorres@greenst.com nnickerson@greenst.com bnudd@greenst.com
• <b>Office</b>	Michael Knott, CFA, Managing Director John Stewart, CFA, Analyst Lukas Hartwich, CFA, Senior Associate David Anderson, Associate Jed Reagan, Associate	mknott@greenst.com jstewart@greenst.com lhartwich@greenst.com danderson@greenst.com jreagan@greenst.com
• <b>Residential</b>	Andrew McCulloch, CFA, Senior Analyst Chris Van Ens, CFA, Analyst Ray Huang, CFA, Senior Associate Stephen Bakke, Associate	amcculloch@greenst.com cvanens@greenst.com rhuang@greenst.com sbakke@greenst.com
• <b>Retail</b>	Cedrik Lachance, Managing Director Laura Clark, CFA, Senior Associate Andrew Johns, CFA, Senior Associate Jason White, Associate Daniel Busch, Associate	clachance@greenst.com lclark@greenst.com ajohns@greenst.com jwhite@greenst.com dbusch@greenst.com*
<b>Quantitative Analytics</b>	Peter Rothmund, CFA, Analyst Kawika Tarayao, Senior Associate Matthew Wokasch, CFA, Senior Associate Jason Moore, CFA, Associate	prothemund@greenst.com ktarayao@greenst.com mwokasch@greenst.com jmoore@greenst.com

**Administration** 660 Newport Center Drive, Suite 800 Newport Beach, CA 92660 +1.949.640.8780

<b>Administration</b>	Warner Griswold, CFA, Chief Operating Officer Michael Kao, Director, Technology Robyn Francis, Manager, Compliance Jimmy Meek, Controller, Accounting Kathy Chamberlain, Human Resources	wgriswold@greenst.com mkao@greenst.com rfrancis@greenst.com jmeek@greenst.com kchamberlain@greenst.com
-----------------------	--	--

**Trading & Institutional Sales** 600 North Pearl Street, Suite 2310 Dallas, TX 75201  
1.800.263.1388 (Trading) +1.214.855.5905 (Sales)

<b>Trading</b>	Lynn Lewis, Managing Director of Sales & Trading Laurie Hauck, Vice President, Trading Carol Parker, Vice President, Trading David Alexander, Vice President, Trading David Auerbach, Vice President, Trading	llewis@greenst.com lhauck@greenst.com cparker@greenst.com dalexander@greenst.com dauerbach@greenst.com
<b>Institutional Sales</b>	Anthony Scalia, Director, Institutional Sales Tim Joy, Vice President, Institutional Sales (London) Scott Bell, Vice President, Institutional Sales Murrie Holland, Institutional Sales Eric Lovett, Institutional Sales	ascaliam@greenst.com tjoy@greenst.eu.com sbell@greenst.com mholland@greenst.com elovett@greenst.com

**Subscription Sales & Marketing** 660 Newport Center Drive, Suite 800 Newport Beach, CA 92660 +1.949.640.8780

<b>Subscription Sales</b>	Damon Scott, Director, Subscription Sales Kevin Johnson, Manager, Subscription Sales	dscott@greenst.com kjohnson@greenst.com
<b>Marketing</b>	Rosemary Pugh, Manager, Marketing	rpugh@greenst.com

**Consulting** 660 Newport Center Drive, Suite 800 Newport Beach, CA 92660 +1.949.640.8780

<b>Consulting</b>	Adam Markman, Managing Director Paul Harmeling, Senior Associate Phil Owens, Senior Associate	amarkman@greenst.com pharmeling@greenst.com powens@greenst.com
-------------------	---	--

\*These research employees operate in a support capacity and are not yet registered representatives/research analysts. All employees listed in the "Research" section without an asterisk (\*) are registered representatives/research analysts.